



Financial Management Report as of MARCH 31, 2010

AT A GLANCE:

Higher business tax and stabilizing sales tax revenues push 2010 ahead of 2009 year-to-date (page 2)

2010 Sales tax revenue improves (page 5)

Development-related fee revenue performance still shaky, but glimmer of hope? (page 5)

A walk in the park? Maybe next year.... (page 2 sidebar)

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Summary of All Operating Funds: *Revenue*

- **General Fund** actual 2010 revenue is **2.3 percent ahead** of the same period last year largely due to higher business tax revenue and an increase in engineering charges from several large transportation projects. Additionally, sales tax and planning fee revenue performance has improved, after suffering negative performance last year. However, slumping utility tax and building permit fee revenue remain a problem. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- **Other General Government Funds** actual 2010 revenue is **7.4 percent lower** compared to the same period last year primarily due to lower internal rates. These rates were reduced for fleet (recognizing lower fuel prices and expenditure reductions) and technology (reduced personnel costs and use of fund cash for replacement charges as a budget reduction strategy). Lodging tax revenue is down 11.7 percent compared to the same period last year. This is less of a decline than the 2009 performance, which ended the year 23.4 percent lower than 2008. Motor vehicle fuel tax, which ended 2009 down 9 percent compared to 2008, is up 9 percent compared to the same period last year. This may be a sign of increasing economic activity. The fuel tax is collected on a flat rate per gallon, so more moderate fuel prices have helped improve this revenue's performance; however higher fuel prices may result in reduced consumption. Recreation class revenue is about even compared to the same period last year. However, facilities rental revenue is up significantly primarily due to increased rentals of Heritage Hall for private functions that are a result of the Parks Department's marketing efforts.
- **Water Sewer Operating Fund** actual 2010 revenue is **3.3 percent ahead** of the same period last year due to a higher percentage of billing collections.
- **Surface Water Management Fund** actual 2010 revenue is **45.2 percent lower** compared to the same period last year primarily due to timing of revenue collection. Revenue received in subsequent months brought trends back to normal and revenue is slightly ahead of last year. Rates are paid through property taxes, which are primarily received in April and October and can be somewhat volatile from year to year.
- **Solid Waste Fund** actual 2010 revenue is **1.7 percent ahead** of the same period last year due to normal variations in timing of revenue collection.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
General Gov't Operating:								
General Fund	10,254,151	10,485,456	2.3%	54,549,760	54,440,793	-0.2%	18.8%	19.3%
Other General Gov't Operating Funds	3,392,278	3,141,763	-7.4%	16,563,457	15,655,990	-5.5%	20.5%	20.1%
Total General Gov't Operating	13,646,429	13,627,219	-0.1%	71,113,217	70,096,783	-1.4%	19.2%	19.4%
Utilities:								
Water/Sewer Operating Fund	4,155,356	4,290,593	3.3%	19,807,210	20,660,066	4.3%	21.0%	20.8%
Surface Water Management Fund	371,740	203,675	-45.2%	5,350,962	5,270,500	-1.5%	6.9%	3.9%
Solid Waste Fund	2,106,440	2,142,604	1.7%	8,612,724	8,627,630	0.2%	24.5%	24.8%
Total Utilities	6,633,537	6,636,873	0.1%	33,770,896	34,558,196	2.3%	19.6%	19.2%
Total All Operating Funds	20,279,966	20,264,091	-0.1%	104,884,113	104,654,979	-0.2%	19.3%	19.4%

Budgeted and actual revenues exclude resources forward and interfund transfers.



Juanita Bay Park

Enhancements called for in the 2005 adopted Juanita Beach Park Master Plan will soon be realized with the renovation of the Park set to this spring. Construction activity will be limited to areas of the park south of Juanita Drive (beach side) and will prompt the closure of the entire south section of the park for the remainder of 2010, including access to the beach, walking pier, playground and picnic shelters. Environmental enhancements include the renovation of Juanita Creek, creation of new wetlands and quality marshes, and formation of re-graded lawn areas with improved drainage and irrigation systems. New walking paths, including an accessible beachfront promenade extending the length of the waterfront will be installed. A new parking lot with associated lighting, landscaping and improved low-impact development pollution and storm-water controls will be constructed. Other improvements include a new open-air amphitheater for small community events, new site furnishings including benches and picnic tables, and extensive new native landscaping. Construction is anticipated to be complete in 10 to 12 months. Project information is available online at www.ci.kirkland.wa.us (Search: Juanita Beach Master Plan) or by contacting Michael Cogle, Park Planning & Development Manager at 425-587-3310 or mcogle@ci.kirkland.wa.us.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are **0.1 percent behind** last year primarily due to lower personnel and internal service rate costs and despite an increase in contracted regional dispatch costs. A regional agency began providing dispatch services as of July 1, 2009. This resulted in a shift from salaries and benefits to contracted services, which is the reason for the increased contracted costs and one of the reasons for reduced personnel costs. Personnel costs are also down due to reduced 2010 salaries taken by most employees (who received furlough days in return) as a budget reduction strategy, as well as reduction in staffing and slightly lower overtime costs. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures are **9.1 percent behind** the same period last year due to generally lower personnel costs and internal rates (primarily due to expenditure reductions), reduced Street operating supplies, and substantially lower facility utility costs and despite higher vehicle/equipment purchases. Facility utility costs are down almost 50 percent, partially due to milder winter weather, but even more importantly from staff conservation efforts and the pay-off from investments in updated controls and equipment at various locations, including City Hall, Maintenance Center and Peter Kirk Community Center. Vehicle replacement costs vary year-to-year depending on the planned replacement cycle.
- **Water/Sewer Operating Fund** actual expenditures are **3.5 percent behind** the same period last year primarily due to a significant decline in regional water connection charges (with a corresponding reduction in connection revenue).
- **Surface Water Management Fund** actual expenditures are **10.5 percent ahead** of the same period last year due to higher personnel costs related to National Pollutant Discharge Elimination System (NPDES) requirements and normal variability in the timing of payment for various services.
- **Solid Waste Fund** actual expenditures are **1.2 percent behind** the same period last year due to the timing of disposal contract billing payments.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
General Gov't Operating:								
General Fund	14,573,154	14,559,524	-0.1%	59,167,520	57,630,573	-2.6%	24.6%	25.3%
Other General Gov't Operating Funds	3,674,173	3,339,616	-9.1%	15,415,335	13,104,036	-15.0%	23.8%	25.5%
Total General Gov't Operating	18,247,327	17,899,140	-1.9%	74,582,855	70,734,609	-5.2%	24.5%	25.3%
Utilities:								
Water/Sewer Operating Fund	3,644,953	3,517,264	-3.5%	15,555,212	15,903,927	2.2%	23.4%	22.1%
Surface Water Management Fund	687,085	759,077	10.5%	3,605,721	3,448,620	-4.4%	19.1%	22.0%
Solid Waste Fund	1,496,495	1,479,102	-1.2%	8,455,673	8,590,036	1.6%	17.7%	17.2%
Total Utilities	5,828,532	5,755,443	-1.3%	27,616,606	27,942,583	1.2%	21.1%	20.6%
Total All Operating Funds	24,075,859	23,654,583	-1.7%	102,199,461	98,677,192	-3.4%	23.6%	24.0%

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

General Fund Revenue

Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

- Sales tax** revenue allocated to the General Fund for 2010 was adjusted to reflect lower projections as a result of the economic recession. However, actual revenue is **2 percent ahead** of the same period last year. A detailed analysis of **sales tax** revenue can be found starting on page 5.
- Utility tax** actual revenue collection is **3.7 percent behind** the same period last year primarily due to significantly lower revenue from natural gas (down 29.5 percent) and electricity (down 5.9 percent). This is a result of much milder winter weather compared to the previous year along with lower natural gas rates.
- Other taxes** actual revenue is **23.1 percent behind** the same period last year due to lower gambling and admissions tax revenue.
- The **business licenses (base fee) and franchise fees** actual revenue is **36.4 percent ahead** of the same period last year primarily due to higher franchise fee revenue. The **revenue generating regulatory license fee** is **15.8 percent ahead** of the same period last year. This fee was restructured and substantially increased in 2009. The increase in 2010 is a combination of fully realizing the restructured fees, as well as changes in timing for renewal of larger employers.
- The continuing development activity slump is reflected in **development-related fee** revenues, which collectively are **down 16.4 percent** compared to the same period in 2009. Compared to the same period last year, **building permits** and **plan check revenue** are collectively **16.6 percent lower** and **engineering services** revenue is **74 percent lower**. However, **planning fees** revenue is **ahead 142.3 percent** due to a significant increase in pre-submittal process applications, which may be a hopeful sign of improvement in future development activity. It is also due to very low collections during the same period in 2009.
- Compared to the same period last year: **Grant** revenue is **ahead 70.8 percent** due to funding received for the environmental outreach and emergency preparedness programs, as well as federal stimulus grants for culture and court security; **Other intergovernmental services** revenue is **13.9 percent below** last year's actual due to the elimination of the contract providing dispatching services to other cities caused by the formation of a regional communications center and despite an increase to revenue received from providing staffing to the regional Criminal Justice Training Center. It should be noted that revenue from Fire District 41 is usually received quarterly. The first quarter payment was not receipted until the second quarter due to the necessary reconciliation calculation for 2009 charges to the district.
- Internal Charges** are **13.9 percent ahead** compared to the same period last year primarily due to an increase in capital project engineering charges.
- Other financing sources** are behind last year due to the timing of transfers, as well as the use of reserves in 2009.

General Fund 2010 revenues are \$231,000 higher than the same period in 2009 largely due to higher business and sales tax revenue and despite lower utility tax and development-related revenue.

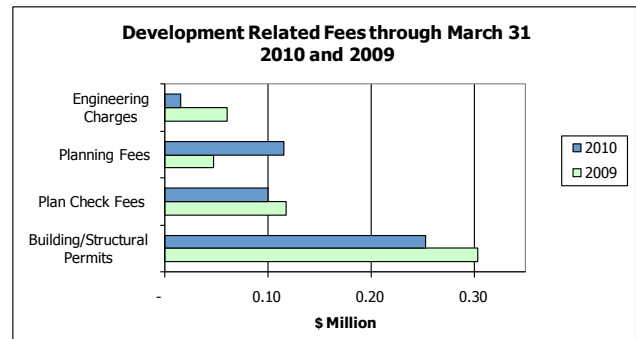
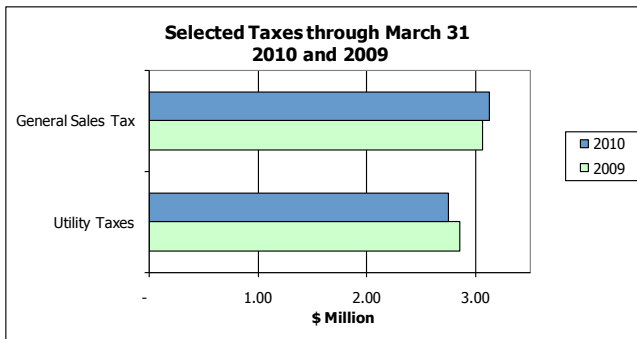
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

About 350 of the City's 447 regular employees are budgeted within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
Taxes:								
Retail Sales Tax: General	3,068,579	3,129,978	2.0%	11,564,551	11,464,179	-0.9%	26.5%	27.3%
Retail Sales Tax: Criminal Justice	256,376	241,152	-5.9%	1,107,000	1,129,140	2.0%	23.2%	21.4%
Property Tax	406,459	443,187	9.0%	9,264,941	9,904,815	6.9%	4.4%	4.5%
Utility Taxes	2,854,392	2,748,632	-3.7%	10,604,676	10,983,789	3.6%	26.9%	25.0%
Rev Generating Regulatory License	533,238	617,310	15.8%	2,599,920	2,567,468	-1.2%	20.5%	24.0%
Other Taxes	145,423	111,802	-23.1%	591,779	463,900	-21.6%	24.6%	24.1%
Total Taxes	7,264,467	7,292,060	0.4%	35,732,867	36,513,291	2.2%	20.3%	20.0%
Licenses & Permits:								
Building, Structural & Equipment Permits	302,836	252,445	-16.6%	1,645,600	1,436,990	-12.7%	18.4%	17.6%
Business Licenses/Franchise Fees	334,496	456,203	36.4%	1,654,903	1,720,921	4.0%	20.2%	26.5%
Other Licenses & Permits	66,829	82,580	23.6%	183,500	175,460	-4.4%	36.4%	47.1%
Total Licenses & Permits	704,161	791,228	12.4%	3,484,003	3,333,371	-4.3%	20.2%	23.7%
Intergovernmental:								
Grants	90,262	154,177	70.8%	218,754	313,433	43.3%	41.3%	49.2%
State Shared Revenues & Entitlements	229,311	237,197	3.4%	908,404	809,010	-10.9%	25.2%	29.3%
Fire District #41	-	-	N/A	3,850,077	3,598,238	N/A	N/A	N/A
EMS	-	-	N/A	836,938	866,231	N/A	N/A	N/A
Other Intergovernmental Services	168,185	144,824	-13.9%	654,713	537,436	-17.9%	25.7%	26.9%
Total Intergovernmental	487,758	536,198	9.9%	6,468,886	6,124,348	-5.3%	7.5%	8.8%
Charges for Services:								
Internal Charges	1,035,992	1,179,579	13.9%	4,905,963	4,663,482	-4.9%	21.1%	25.3%
Engineering Services	60,331	15,701	-74.0%	357,134	225,000	-37.0%	16.9%	7.0%
Plan Check Fee	117,922	99,470	-15.6%	520,000	408,252	-21.5%	22.7%	24.4%
Planning Fees	47,634	115,403	142.3%	247,157	243,420	-1.5%	19.3%	47.4%
Other Charges for Services	189,122	184,017	-2.7%	756,426	742,937	-1.8%	25.0%	24.8%
Total Charges for Services	1,451,001	1,594,170	9.9%	6,786,680	6,283,091	-7.4%	21.4%	25.4%
Fines & Forfeits	255,882	237,660	-7.1%	1,407,595	1,532,000	8.8%	18.2%	15.5%
Miscellaneous	90,882	34,139	-62.4%	669,729	654,692	-2.2%	13.6%	5.2%
Total Revenues	10,254,151	10,485,456	2.3%	54,549,760	54,440,793	-0.2%	18.8%	19.3%
Other Financing Sources:								
Interfund Transfers	476,143	-	N/A	3,899,053	2,234,780	N/A	12.2%	N/A
Total Other Financing Sources	476,143	-	N/A	3,899,053	2,234,780	N/A	12.2%	N/A
Total Resources	10,730,293	10,485,456	-2.3%	58,448,813	56,675,573	-3.0%	18.4%	18.5%

Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2009	3/31/2010	% Change	2009	2010	% Change	2009	2010
Non-Departmental	287,808	290,493	0.9%	1,254,877	1,253,818	-0.1%	22.9%	23.2%
City Council	146,598	170,300	16.2%	353,175	353,130	0.0%	41.5%	48.2%
City Manager's Office	829,719	732,691	-11.7%	3,434,631	3,066,140	-10.7%	24.2%	23.9%
Human Resources	248,410	246,901	-0.6%	1,081,720	1,124,972	4.0%	23.0%	21.9%
City Attorney's Office	249,267	248,112	-0.5%	993,790	974,121	-2.0%	25.1%	25.5%
Parks & Community Services	1,507,702	1,514,901	0.5%	7,621,687	6,670,931	-12.5%	19.8%	22.7%
Public Works (Engineering)	888,601	828,138	-6.8%	3,629,985	3,325,385	-8.4%	24.5%	24.9%
Finance and Administration	909,786	865,373	-4.9%	3,671,314	3,733,652	1.7%	24.8%	23.2%
Planning & Community Development	722,306	682,469	-5.5%	2,835,702	2,704,807	-4.6%	25.5%	25.2%
Police	4,327,796	4,408,487	1.9%	16,557,994	17,136,276	3.5%	26.1%	25.7%
Fire & Building	4,455,159	4,571,661	2.6%	17,732,645	17,287,341	-2.5%	25.1%	26.4%
Total Expenditures	14,573,154	14,559,524	-0.1%	59,167,520	57,630,573	-2.6%	24.6%	25.3%
Other Financing Uses:								
Interfund Transfers	189,381	151,969	-19.8%	1,705,441	1,254,335	-26.5%	11.1%	12.1%
Total Other Financing Uses	189,381	151,969	-19.8%	1,705,441	1,254,335	-26.5%	11.1%	12.1%
Total Expenditures & Other Uses	14,762,535	14,711,492	-0.3%	60,872,961	58,884,908	-3.3%	24.3%	25.0%

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Personnel costs in most General Fund departments are down compared to last year due to the combination of the implementation of furloughs (which reduced salaries and benefit costs) and reduction in staffing as strategies to balance the budget in response to declining revenues. In addition, specific factors for individual departments are noted below:

Comparing to the same period last year:

- Actual 2010 expenditures for the **City Council** are **16.2 percent ahead** primarily due to a one time citizen survey paid this year.
- Actual 2010 expenditures for the **City Manager's Office** are **11.7 percent lower** due to reduced facilities charges resulting from the purchase of the Municipal Court and lower professional services costs, including court interpreter services and the federal lobbyist (which was funded for 2009 only), as well as the timing of outside agency funding payments.
- Actual 2010 expenditures for the **Parks & Community Services Department** are **0.5 percent ahead** primarily due to the timing of human service agency grants and despite reductions to staffing levels.
- Actual 2010 expenditures for the **Public Works Department** are **6.8 percent lower** almost entirely due to staffing reductions and reallocations.
- Actual 2010 expenditures for the **Finance and Administration Department** are **4.9 percent lower** due to election costs paid in 2009 and despite one position added in anticipation of annexation.

Compared to 2009, 2010 General Fund actual expenditures are 0.1 percent lower primarily due to lower personnel costs and despite higher costs for the regional dispatch contract, as noted in the explanation of Police and Fire Department expenditures.

(Continued on page 5)

Financial Management Report as of MARCH 31, 2010

- Actual 2010 expenditures for the **Planning and Community Development Department** are **5.5 percent behind** due to one-time 2009 costs for the Shoreline Master Plan update, as well as staffing reductions.
- Actual 2010 expenditures for the **Police Department** are **1.9 percent ahead** due to charges for the regional dispatch agency and despite lower personnel costs (partially caused by the shift from in-house dispatch staffing as of July 2009 to contracting with the agency). Staffing will be hired throughout 2010 in anticipation of annexation, which commences June 1, 2011. Increases to jail costs, which have been a concern over the last few years, have moderated due to contracts with other agencies for lower rates than those charged by King County.
- Actual 2010 expenditures for the **Fire & Building Department** are **2.6 percent ahead** due to charges for the regional dispatch agency and despite lower personnel costs. Fire suppression overtime expenses in 2010 are down about 6.1 percent compared to the same period last year, but remain a concern, as the cost is trending above budget.

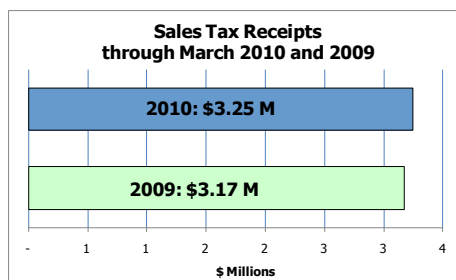
Furlough days will result in the day-time closure of several City buildings on these dates:

1. Friday, March 12, 2010
2. Friday, May 28, 2010
3. Friday, July 2, 2010
4. Tuesday, September 7, 2010
5. Monday, October 11, 2010
6. Wednesday, November 24, 2010
7. Thursday, December 23, 2010
8. Thursday, December 30, 2010

Sales Tax Revenue Analysis 2010 sales tax revenue has stabilized in the first quarter, **up 2.3 percent** compared to the same period last year. The primary reasons are improvements to the retail sectors (up 3.6 percent collectively over the same period last year) largely driven by auto/gas retail and internet/catalog sales, as well as the services and wholesale sectors. Also, the contract sector revenue decline lessened and total February revenue (reflecting December sales) benefiting from milder winter weather compared to the prior year (see tables on page 6).

Review by business sectors:

- Auto/gas retail** is **up 14.3 percent** compared to the same period last year due to generally positive performance by key retailers. Improvement for this sector locally reflects national trends.
- Other retail** is **up 10 percent** compared to the same period last year due to electronics, furniture, health care, and internet retailers, as well as the re-classification of one retailer from the general merchandise/miscellaneous retail sector. Streamlined sales tax rule changes have also contributed to the increase.
- The **services** sector is **up 10.5 percent** compared to the same period last year largely due to software and temporary agency services, likely a result of the sourcing rule change. The accommodations sector is essentially flat after significant declines in 2009, down 1.1 percent compared to the same period last year.
- Wholesale** is **up 16.8 percent** compared to the same period last year primarily due to changes in local coding sourcing rules from streamlined sales tax and development-related activity.
- The **miscellaneous** sector is **up 3.6 percent** compared to the same period last year largely due to increases in the manufacturing category, most likely reflecting changes in streamlined sales tax sourcing rules.
- The **contracting** sector is **down 11.8 percent** compared to the same period last year and remains the largest drag on revenue. Development activity is down considerably due to the recession. Large public projects, including the replacement of Lake Washington High School and the Downtown Transit Center, have helped contribute to the slowing of the revenue decline in this sector's performance compared to last year.
- General merchandise/miscellaneous retail** is **down 10.2 percent** compared to the same period last year due to disappointing performance by key retailers, the previously mentioned reclassification of one business, as well as impacts from streamlined sales tax rule changes. The revenue loss in this sector compared to last year is almost as much as in the contracting sector.
- Retail eating/drinking** is **down 3.7 percent** compared to the same period last year. This sector continues its negative trend that started in the second half of 2008. Reduced consumer discretionary spending is evident from the generally negative performance by several businesses in this sector as well as the closure of several restaurants. However, this performance is a smaller decline compared to the 13.1 percent decline the sector experienced in 2009 compared to 2008.
- The **communications** sector is **down 6.3 percent** compared to the same period last year due to reduced development-related activity and declining revenue from telecommunications companies.



Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. The first quarter 2010 payment of about \$32,000 was received in March.

Neighboring Cities

Bellevue and Redmond 2010 sales tax revenue through March is down 5.4 percent and 6.9 percent respectively compared to the same period in 2009.

City of Kirkland Actual Sales Tax Receipts

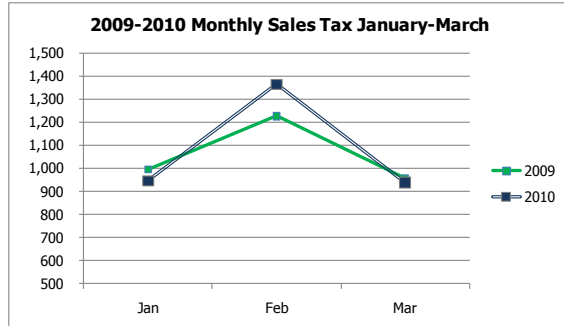
Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Services	378,855	418,718	39,863	10.5%	11.9%	12.9%
Contracting	479,097	422,550	(56,547)	-11.8%	15.1%	13.0%
Communications	122,071	114,438	(7,633)	-6.3%	3.8%	3.5%
Auto/Gas Retail	641,063	732,417	91,354	14.3%	20.2%	22.6%
Gen Merch/Misc Retail	540,878	485,467	(55,411)	-10.2%	17.0%	14.9%
Retail Eating/Drinking	272,973	262,891	(10,082)	-3.7%	8.6%	8.1%
Other Retail	402,446	442,624	40,178	10.0%	12.7%	13.6%
Wholesale	152,843	178,447	25,604	16.8%	4.8%	5.5%
Miscellaneous	183,347	189,923	6,576	3.6%	5.8%	5.8%
Total	3,173,573	3,247,475	73,902	2.3%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2009 and 2010 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2009	2010		
January	994,146	945,992	(48,154)	-4.8%
February	1,224,935	1,364,023	139,088	11.4%
March	954,492	937,460	(17,032)	-1.8%
Total	3,173,573	3,247,475	73,902	2.3%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in March is for sales activity in January. Monthly sales tax receipts through March 2009 and 2010 are compared in the table to the left.



- Monthly revenue performance in 2010 has improved from the mostly double digit declines experienced throughout 2009.
- February 2010 was substantially ahead of February 2009 primarily due to significant improvements in auto/gas retail, other retail, and contracting. Revenue received in February is from activity in December, so it reflects an important part of the critical holiday shopping season.
- In addition to the economic recession, unusually severe winter weather experienced in December 2008 hampered holiday shopping, which negatively impacted February 2009 revenue.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounts for almost 31 percent of the total sales tax receipts, is **up 1.7 percent** primarily due to

significant improvement in automotive/gas retail sales. Almost 67 percent of this business district's revenue comes from the auto/gas retail and general merchandise/miscellaneous retail sectors.

NE 85th Street, which accounts for over 16 percent of the total sales tax receipts, is **down 1.2 percent** primarily due to the general merchandise/miscellaneous retail and despite improvements to automotive/gas retail. These two sectors contribute about 86 percent of this business district's revenue.

Downtown, which accounts for over 7 percent of the total sales tax receipts, is **down 2.6 percent** due to the loss of several retailers and poor performance in the retail eating/drinking sector. The retail eating/drinking and accommodations sectors provide over 68 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which account for about 2 percent of the total sales tax receipts, are **up 3.3 percent** compared to last year primarily due to other retail and the accommodations sectors and despite poor performance in the retail eating/drinking sector. About 70 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for about 2 percent of the total sales tax receipts, are **down 10.1 percent** collectively almost entirely due to miscellaneous retail and other retail (partially due to the closure of a major supermarket, although a new business opened in that location in May after a major renovation). These sectors provide about 72 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts, is **down 2.2 percent** primarily due to retail eating/drinking and personal services. These sectors, along with miscellaneous retail, provide almost 71 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that over 42 percent of the revenue received in 2010 is in the "unassigned or no district" category largely due to contracting revenue (which has declined compared to last year), and increasing revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2009	2010			2009	2010
Totem Lake	980,560	997,314	16,754	1.7%	30.9%	30.7%
NE 85th St	516,141	510,049	(6,092)	-1.2%	16.3%	15.7%
Downtown	236,618	230,472	(6,146)	-2.6%	7.5%	7.1%
Carillon Pt/Yarrow Bay	66,931	69,167	2,236	3.3%	2.1%	2.1%
Houghton & Bridle Trails	77,645	69,819	(7,826)	-10.1%	2.4%	2.1%
Juanita	72,916	71,331	(1,585)	-2.2%	2.3%	2.2%
Unassigned or No District:						
Contracting	479,089	422,550	(56,539)	-11.8%	15.1%	13.0%
Other	743,673	876,773	133,100	17.9%	25.7%	29.3%
Total	3,173,573	3,247,475	73,902	2.3%	100.0%	100.0%

Sales Tax Revenue Outlook 2010 sales tax first quarter revenue performance appears to confirm that the local economy is no longer in a free-fall. While both January and March were down compared to the same months of 2009, they were single-digit declines rather than the double-digit declines experienced through most of 2009. The spike in February revenue, which is partially due to milder weather in December compared to the previous year, helps take 2010 ahead of 2009 for the first quarter. Recovery for the local economy remains uneven. The largest contributor to revenue improvement, the automotive/gas retail sector is especially sensitive to changing economic conditions, which poses a significant risk. Contracting, while declining less than last year, remains significantly lower than a few years ago. Sales tax revenue, which is the City's largest single General Fund revenue source, is inherently volatile and especially so during these unusual economic times. 2010 revenue was budgeted to remain flat compared to 2009, so the fact that it is ahead as of March is good news. However, sustaining the positive performance throughout the year is uncertain considering the current economic conditions.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 19.7 percent for first quarter 2010 compared to 13.8 percent for first quarter 2009. Kirkland's 2010 vacancy rate is 30.6 percent, significantly higher than the 2008 rate of 7.8 percent largely due to vacancies in the new space at the Lakeview Plaza complex.

The Puget Sound regional market saw a spike in vacancy rates in 2008-09 as the economy declined and new construction overwhelmed market demand. The vacancy rate continues to rise, currently at about 20%, but the trend seems to be turning. The first quarter of 2010 was the smallest hike in vacancy rates since the beginning of 2008.

LODGING TAX REVENUE:

Lodging tax 2010 revenue is down 11.7 percent compared to the same period last year.

Economic Environment Update Washington State's economy has turned the corner and is expanding at a moderate rate according to the latest update from the Washington State Economic and Revenue Forecast Council. Employment is on the rise, consumer spending appears to be improving, and the manufacturing outlook remains positive. Housing permits continue to grow, but construction employment continues to decline. The state is expected to continue to benefit from the global recovery. The recent European Union concerns are expected to have little impact to the state, since the EU comprises only about 7 percent of Washington's export market.

Nationally, the gross domestic product grew at 3.2 percent (annualized) during the first quarter of 2010. Net job growth has occurred in 5 of the last 6 months and business and consumer spending is improving. Consumer spending was up 3.6 percent (annualized) during the first quarter of 2010; double that of fourth quarter 2009 and the largest gain since the beginning of 2007. However, in Kirkland, the signs of economic recovery are still uncertain. Sales tax revenue seems to have stabilized, but development activity remains very slow.

The U.S. **consumer confidence index** rebounded to **52.3** in March after falling in February to 46.4. February was considerably lower than January, which was 56.5. Despite the improvement in March, consumers continue to express concern about labor and business conditions. An index of 90 indicates a stable economy and one at or above 100 indicates growth.

King County's **unemployment rate** is **8.1 percent** in March compared to 7.9 percent in March 2009. While remaining high compared to a few years ago, King County is considerably lower than both Washington State and national rates, which are 9.9 and 9.7 percent respectively. The number of jobs available in the county increased by over 11,000 since January 2010.

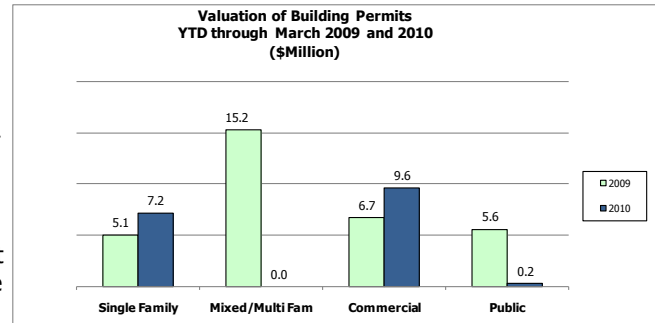
The **Western Washington chapter of Purchasing Managers survey index** remained about the same in March at **55.0**, down from 55.8 in February. However, the national survey index increased to 59.6 from 56.5. An index reading greater than 50 indicates a growing economy, while scores below suggest a shrinking economy.

(Continued on page 8)

Local **development activity** through March comparing 2010 to 2009 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity has improved in the single family and commercial sectors. However, activity in the mixed use/multifamily and public sectors is almost nonexistent and the 2010 building permit valuation is 48 percent below 2009.

Closed sales of **new and existing single-family homes** on the East-side are up 108.1 percent in March 2010 compared to March 2009. However, the median price of a single family home declined 1.9 percent (\$495,000 compared to \$504,500). Closed sales for condominium were up 78.4 percent, but the median price dropped 9.4 percent (to \$253,832 from \$290,000). Countywide, housing prices posted the first year-over-year increase in two years, up 0.9 percent to \$367,250. The upswing in sales is attributed to both consumer concerns about potential increases to mortgage rates and the federal tax credit available through the end of April.

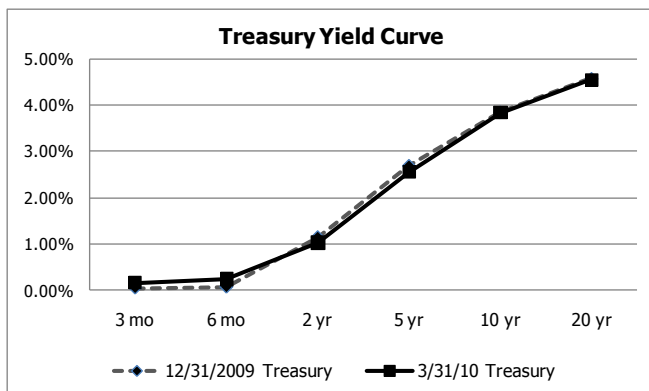
Seattle metro consumer price index (CPI), which was often negative in 2009, remains low for the first reading in 2010 at 1.1% (which matches the February 2009 index). The Seattle index is calculated bi-monthly. The June 2009 CPI (-0.7 percent) would normally be used to calculate City employee cost of living adjustments (COLA) for 2010. As a result of the negative index, employees with closed bargaining units received no adjustment this year. (Four bargaining units and management had already agreed to this beforehand as part of a budget reduction strategy.) The national index started increasing last November and the March reading was 3%, substantially higher than the local rate. However, forecasters expect minimal threat of accelerating inflation and the Federal Reserve is expected to keep the Fed Funds rate at the current rate of 0.25 percent throughout 2010. The June 2010 CPI (released in July 2010) will be the contractual basis for budgeting 2011 COLA increases.



Investment Report

MARKET OVERVIEW

Fed Funds rate remained at 0.25 percent during the first quarter of 2010 as the economy continued giving indications of a slow recovery. The yield curve remained fairly constant. There were slight decreases in interest rates at the short end of the curve and nearly no changes in rates at the longer end of the curve.

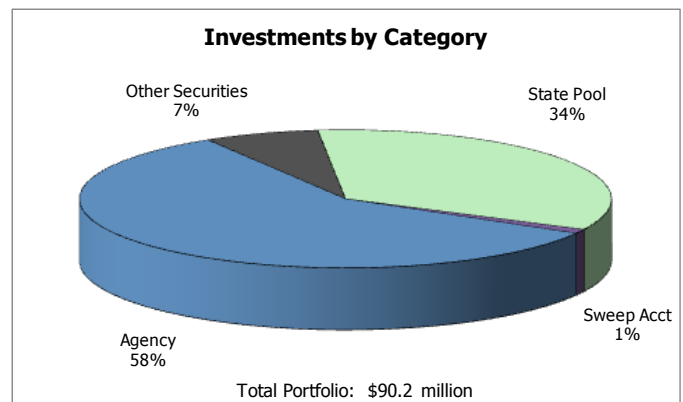


CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City's portfolio decreased in the first quarter of 2010 to \$90.2 million compared to \$95.2 million on December 31, 2009. The decrease in the portfolio is related to the normal

cash flows of the first quarter, as the first half of property taxes is received at the end of April.



Diversification

The City's current investment portfolio is composed of Government Agency bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2010 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The U.S. economy is expected to grow at an annual rate of 2.7 percent over each of the next five quarters, according to 42 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters project that real GDP growth will be 3 percent in 2010. The forecasters continue to see little threat of accelerating inflation. The unemployment rate is expected to average 9.8 percent in 2010 and fall to 9.2 percent in 2011. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2010.

The duration of the portfolio will decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as shorter term interest rates continue at very low levels. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.22 percent and will continue to remain historically low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2010 is \$1.4 million.

Investment Report *continued*

Liquidity

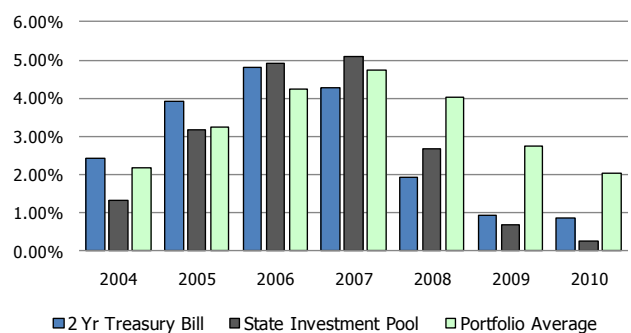
The target duration for the City's portfolio is based on the 2-year treasury rate which decreased from 1.14 percent on December 31, 2009 to 1.02 percent on March 31, 2010. The average maturity of the City's investment portfolio increased from 0.72 years on December 31, 2009 to 1.6 years on March 31, 2010 due to the purchase of longer term securities to lock in higher yields. It is expected that those securities will be called on their call dates as the interest rates of the securities are higher than current rates.

Benchmark Comparison	December 31, 2009	March 31, 2010
City Yield to Maturity (YTM)	1.66%	2.08%
City Average YTM	2.74%	2.04%
City Year to Date Yield	3.04%	1.53%
90 Day Treasury Bill	0.06%	0.16%
2 yr Rolling Avg 2 yr T Note	1.44%	1.33%

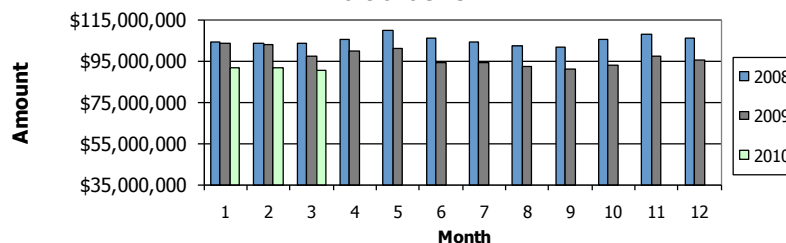
Yield

The City Portfolio yield to maturity increased from 1.66 percent on December 31, 2009 to 2.08 percent on March 31, 2010. Through March 31, 2010, the City's annual average yield to maturity was 2.04 percent. With Council adoption of the amended Investment Policy on January 5, 2010, the City's portfolio benchmark was changed to the range between the 90 day Treasury Bill and the 2 year rolling average of the 2-year Treasury Note. This benchmark is more reflective of the maturity guidelines required in the Investment Policy. The City's portfolio outperformed both the 90 day T Bill and the 2 Year rolling average of the 2-year Treasury Note, which was 1.33 percent on March 31, 2010. The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.

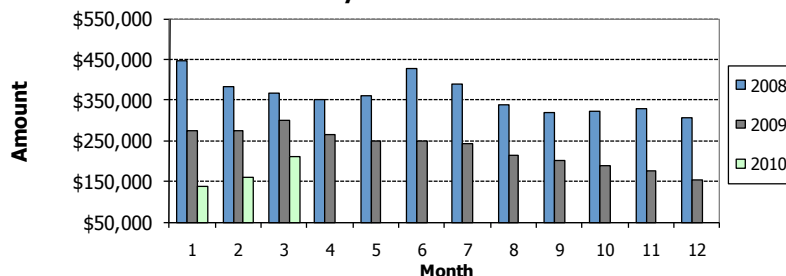
Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



Reserve Summary

General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each year, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the previous year's budget and the current budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in July 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax, development fees and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund at the end of the biennium.

Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to "provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget." State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

Reserves are an important indicator of the City's fiscal health. They effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are otherwise dedicated to a specific purpose (special purpose reserves). The City's reserves are listed with their revised estimated balances at the end of the biennium in the table below:

General Government & Utility Reserves Summary

Reserves	2009-10 Est End Balance	2009-10 Auth. Uses	2009-10 Auth. Additions	Revised 2009-10 End Balance
GENERAL PURPOSE RESERVES				
Contingency ¹	2,324,515	518,557	50,000	1,855,958
General Capital Contingency	2,444,561	266,514		2,178,047
Park & Municipal Reserve:				
General Oper. Reserve (Rainy Day)	2,712,836			2,712,836
Revenue Stabilization Reserve	1,082,380	1,082,380		0
Building & Property Reserve	2,059,669	125,000		1,934,669
Council Special Projects Reserve ²	271,960	116,676		155,284
Total General Purpose Reserves	10,895,921	2,109,127	50,000	8,836,794
SPECIAL PURPOSE RESERVES				
Excise Tax Capital Improvement:				
REET 1	8,370,417	2,349,314	266,078	6,287,181
REET 2	8,134,095		361,336	8,495,431
Equipment Rental:				
Vehicle Reserve	6,421,787			6,421,787
Radio Reserve	36,000			36,000
Information Technology:				
PC Replacement Reserve	494,373			494,373
Major Systems Replacement Reserve	247,900		197,600	445,500
Facilities Maintenance:				
Operating Reserve	550,000			550,000
Facilities Sinking Fund	1,051,963			1,051,963
Impact Fees				
Roads	3,429,578			3,429,578
Parks	237,809			237,809
Park Bond Reserve	558,981			558,981
Cemetery Improvement	523,405			523,405
Off-Street Parking	204,410			204,410
Tour Dock	70,175			70,175
Street Improvement	994,576	32,567		962,009
Firefighter's Pension	1,590,102			1,590,102
Park & Municipal Reserve:				
Litigation Reserve	51,329			51,329
Labor Relations Reserve	67,183			67,183
Police Equipment Reserve	48,093			48,093
LEOFF 1 Police Reserve	612,029			612,029
Facilities Expansion Reserve	800,000			800,000
Development Services Reserve	457,331			457,331
Tree Ordinance	28,980			28,980
Donation Accounts	161,257			161,257
Revolving Accounts	86,175			86,175
Water/Sewer Operating Reserve	1,799,424			1,799,424
Water/Sewer Debt Service Reserve	826,759			826,759
Water/Sewer Capital Contingency	3,018,240	239,200		2,779,040
Water/Sewer Construction Reserve	9,444,066	21,787		9,422,279
Surface Water Operating Reserve	394,485			394,485
Surface Water Capital Contingency	617,690			617,690
Surface Water-Transp. Related Rsv	1,302,179	38,126		1,264,053
Surface Water Construction Reserve	3,186,434			3,186,434
Total Special Purpose Reserves	55,817,225	2,680,994	825,014	53,961,245
Grand Total	66,713,146	4,790,121	875,014	62,798,039

¹ Addition of \$320,000 authorized in April 2010 replenished from 2009 General Fund expenditure savings

² Addition of \$80,000 authorized in April 2010 replenished from 2009 General Fund expenditure savings

Reserve Summary *continued*

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2009-10 Council Authorized Uses		
Contingency	\$54,750	Verizon franchise negotiations
	\$188,262	Hydrant Costs
	\$272,000	2009 Firefighter Overtime
	\$3,545	Return 2008 Interest Backfill to General Fund
General Capital Contingency	\$64,000	Downtown Transit Center
	\$43,800	NE 73rd Street Sidewalk additional funding
	\$98,544	Return 2008 Interest Backfill to General Fund
	\$60,170	Pandemic Flu Supplies
Revenue Stabilization Reserve	\$1,082,380	Backfill General Fund revenue deficit
Building & Property Reserve	\$125,000	Return 2008 Interest Backfill to General Fund
Council Special Projects Reserve	\$2,000	Council Retreat facilitator
	\$26,000	Funding for federal lobbyist services for 2009
	\$25,000	Funding for Neighborhood Connections in 2010
	\$20,000	Hopelink relocation
	\$13,770	Flexpass program
	\$12,506	Bank of America project review process
	\$5,000	Council special investigation
	\$12,400	Medical transport fee consultant contract
Excise Tax Capital REET 1	\$2,349,314	Municipal Court Building purchase
Street Improvement Fund	\$23,000	99th Place NE/100th Ave NE Sidewalk
	\$9,567	2009 Annual Striping Program
Water/Sewer Capital Contingency	\$54,000	Additional funding of \$54,000 for telemetry system upgrades at Supply Station #2 to coincide with a City-wide upgrade of telemetry panels at other water facility sites.
	\$128,000	Funding for the completion of the 2009 Water System Improvement Project.
	\$17,200	NE 73rd Street Sidewalk (watermain replacement) additional funding
	\$40,000	3rd Street Watermain Replacement
Water/Sewer Construction Reserve	\$21,787	Bridle View Annexation Water System Purchase from Redmond
Surface Water-Transp. Related Rsv	\$23,000	Downtown Transit Center (surface water component)
	\$15,126	NE 124th Street/124th Ave NE Intersection Improvements (surface water component)
2009-10 Council Authorized Additions		
Excise Tax Capital REET 1	\$266,078	Closed Capital Projects
Excise Tax Capital REET 2	\$361,336	Closed Capital Projects
Major Systems Replacement Reserve	\$197,600	Closed Capital Projects
Contingency	\$50,000	Reimbursement from Verizon for franchise negotiations

General Government & Utility Reserves Targets Summary

Reserves	Revised 2009-10 End Balance	2009-10 Target	Over (Under) Target
GENERAL PURPOSE RESERVES			
Contingency	1,855,958	4,915,571	(3,059,613)
General Capital Contingency	2,178,047	9,032,430	(6,854,383)
Park & Municipal Reserve:			
General Oper. Reserve (Rainy Day)	2,712,836	3,567,649	(854,813)
Revenue Stabilization Reserve	0	2,188,803	(2,188,803)
Council Special Projects Reserve	155,284	250,000	(94,716)
General Purpose Reserves with Targets	6,902,125	19,954,453	(13,052,328)
SPECIAL PURPOSE RESERVES			
Excise Tax Capital Improvement:			
REET 1	6,287,181	1,653,500	4,633,681
REET 2	8,495,431	8,477,130	18,301
Firefighter's Pension	1,590,102	1,103,000	487,102
Park & Municipal Reserve:			
Litigation Reserve	51,329	50,000	1,329
Water/Sewer Operating Reserve	1,799,424	1,799,424	0
Water/Sewer Debt Service Reserve	826,759	826,759	0
Water/Sewer Capital Contingency	2,779,040	3,018,240	(239,200)
Surface Water Operating Reserve	394,485	394,485	0
Surface Water Capital Contingency	617,690	617,690	0
Special Purpose Reserves with Targets	22,841,441	17,940,228	4,901,213
Reserves without Targets	33,054,473	n/a	n/a
Total Reserves	62,798,039	n/a	n/a

The summary above details all Council authorized uses and additions to each reserve for the biennium through March 2010.

Use of the Revenue Stabilization Reserve was part of the budget-balancing strategy for the 2009-10 biennial budget.

The table to the left compares the revised ending balance to the targets established in the budget process for those reserves with targets.



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- ◆ Tammy McCorkle, Budget Analyst

www.ci.kirkland.wa.us

The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds. The report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis** report takes a closer look at the City's largest and most economically sensitive revenue source.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

Economic Environment Update References:

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- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department